ANNUAL REPORT

OF THE

PRINCE EDWARD ISLAND

LOTTERIES COMMISSION

FOR THE YEAR ENDING

MARCH 31, 1999

TO HIS HONOUR

THE HONOURABLE GILBERT R. CLEMENTS
Lieutenant Governor of the Province of
Prince Edward Island

May It Please Your Honour:

In accordance with the Lotteries Commission Act [R.S.P.E.I. 1988, Cap. L-17], I respectfully submit herewith, for the information of Your Honour and the Legislature of Prince Edward Island, the Annual Report of the Prince Edward Island Lotteries Commission for the fiscal year ended 31 March, 1999.

I have the honour to be Sir:

Your Obedient Servant,

Patricia J. Mella

Patricia J. Mella
Chairperson
P.E.I. Lotteries Commission

Rapport annuel de la Commission des loteries de l'Île-du-Prince-Édouard

pour l'exercice financier se terminant le 31 mars 1999

Survol de l'exercice financier de 1998-1999

HISTORIQUE

La Commission des loteries de l'Î.-P.-É. a été fondée en 1976 en vertu de la *Lotteries Commission Act* (Loi sur la Commission des loteries). Le mandat de la commission est d'élaborer, d'organiser, d'entreprendre, de mener et de gérer les jeux de loteries au nom de la province. La commission a subséquemment délégué ces tâches à son agent, la Société des loteries de l'Atlantique.

La Société des loteries de l'Atlantique a été incorporée en 1976 en vertu de la Loi régissant les sociétés commerciales canadiennes. Les quatre provinces du Canada atlantique sont propriétaires de la Société. Chaque province régie ses jeux et loteries en vertu de lois et de règlements que doit respecter la Société des loteries de l'Atlantique lorsqu'elle exploite les loteries dans chacune des provinces.

PROGRAMME DES LOTERIES VIDÉO

Tous les endroits qui ne possèdent pas de licence pour la vente d'alcool n'ont plus de terminaux de loteries vidéo depuis le 1er avril 1998, tel que prévu par le plan d'action souligné dans le rapport annuel de l'année dernière. La mise en oeuvre de cet important changement au programme de loteries vidéo s'est faite sans grand problème et tous les propriétaires de terminaux de loteries vidéo et de sites non titulaires de licence se sont montrés très coopératifs.

Le retrait des terminaux de loteries vidéo des sites non titulaires de licence se traduit par le retrait de 238 terminaux des 633 terminaux qui fonctionnaient à l'époque, soit une réduction de 38 %. Le retrait des terminaux a aussi réduit le nombre d'établissements qui possédaient des terminaux, pour passer de 239 à 92. La Commission des loteries de l'Î.-P.-É. pense que ces changements ont un effet positif puisque les terminaux sont maintenant limités aux endroits réservés aux personnes majeures.

COURSE ATTELÉE

Comme il était mentionné dans le rapport annuel de l'an dernier, la Société des loteries de l'Atlantique participe dorénavant activement à l'industrie de la course attelée au nouveau-Brunswick, en Nouvelle-Écosse et à l'Île-du-Prince-Édouard et ce, par l'entremise d'une filiale, la *ALC Harness Racing Corporation (ALCHR)*. Cette collaboration a pris son envol au début de la saison de course attelée, en mai 1998.

Le mandat d'ALCHR est de relancer l'industrie de la course attelée en subventionnant les opérations, le marketing et la promotion des sept champs de courses des Maritimes.

L'apport de soutien financier et de conseils d'experts en matière de marketing, de promotion et de coordination de la part d'ALCHR ont permis un regain d'énergie important au sein de l'industrie de la course attelée au cours de la dernière année.

Le succès de l'entreprise s'est fait sentir aux champs de courses de Charlottetown et de Summerside, où le nombre des visiteurs et des paris s'est accru considérablement. En outre, dans le cas de ces deux champs de courses de l'Île, le succès est d'autant plus important qu'il s'agit non seulement de l'industrie de la course attelée, mais aussi d'une tradition culturelle et historique de la province et de son industrie touristique.

Avec l'aide de la Commission des loteries de l'Île-du-Prince-Édouard et des organismes du même genre au Nouveau-Brunswick et en Nouvelle-Écosse et grâce à un plan d'entreprise musclé, ALCHR planifie jouer un rôle de premier plan dans l'industrie régionale de la course attelée au cour de la prochaine année.

LA NOUVELLE-ÉCOSSE SE RETIRE DE LA SOCIÉTÉ DES LOTERIES DE L'ATLANTIQUE

Le 29 mars 1999, la Société des jeux de la Nouvelle-Écosse annonçait officiellement son intention de se retirer de la Société des loteries de l'Atlantique. Selon le calendrier d'exécution, le programme des loteries vidéo serait indépendant de la Société des loteries de l'Atlantique à partir du 30 novembre 1999 et les billets de loterie, à partir du 31 mars 2000.

L'annonce de la Nouvelle-Écosse en mars 1999 mettait fin à de longues négociations avec le conseil d'administration de la Société des loteries de l'Atlantique et les gouvernements des quatre provinces du Canada atlantique sur les changements possibles à apporter au système de répartition des bénéfices utilisé par la Société. La Nouvelle-Écosse était préoccupée par le fait qu'elle ne recevait pas sa juste part des bénéfices générés par les opérations de la Société des loteries de l'Atlantique.

La Commission des loteries de l'Île-du-Prince-Édouard croit fermement que le retrait de la Nouvelle-Écosse de la Société des loteries de l'Atlantique et son établissement d'une commission indépendante engendrera une baisse des revenus et une augmentation des coûts d'exploitation pour les quatre provinces du Canada atlantique en raison de la perte des économies d'échelle et de la diminution des marchés. Toutefois, la Commission est heureuse de confirmer que l'Île-du-Prince-Édouard, le Nouveau-Brunswick, Terre-Neuve et le Labrador continueront à collaborer au sein de la Société des loteries de l'Atlantique.

La Nouvelle-Écosse a cependant annoncé qu'elle poursuivrait sa collaboration avec l'Île-du-Prince-Édouard et le Nouveau-Brunswick en ce qui a trait à l'industrie de la course attelée.

RÉSULTATS FINANCIERS

La part des bénéfices de la Société des loteries de l'Atlantique à laquelle l'Île-du-Prince-Édouard a droit pour l'année 1998-1999 s'élève à 11 142 529 $, soit 23,5 % ou 3 408 459 $ de moins que les 14 550 988 $ obtenus en 1997-1998.

Les principales raisons de cette importante diminution des bénéfices répartis sont la baisse de près de 30 % du total des revenus engendrée par une diminution des profits des loteries vidéo de l'ordre de 22,7 % à la suite du retrait de nombreux terminaux des endroits non titulaires de licence et par l'augmentation des coûts liés au programme d'appui pour l'industrie de la course attelée.

Les résultats financiers ont connu une hausse de 2 % au Nouveau-Brunswick et de près de 14 % à Terre-Neuve et au Labrador comparativement à l'exercice financier de 1997-1998. La plupart des augmentations dans les autres province sont liées aux loteries vidéo.

La part des bénéfices de l'Île-du-Prince-Édouard est versée au compte des recettes générales du gouvernement. Ainsi, cet argent sert à financer les services gouvernementaux auxquels tiennent et s'attendent les Insulaires.

Le tableau 1 de la page suivante fournit une comparaison des profits bruts par programme à l'Île-du-Prince-Édouard pour les exercices financiers de 1997-1998 et de 1998-1999.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

ANNUAL REPORT

for the Fiscal Year ending 31 March 1999

OVERVIEW FOR FISCAL YEAR 1998-99

BACKGROUND

The P.E.I. Lotteries Commission was established in 1976 under the Lotteries Commission Act. The Commission's mandate is to develop, organize, undertake, conduct and manage lottery schemes on behalf of the Province. The Commission has, in turn, delegated these duties to its agent, the Atlantic Lottery Corporation.

The Atlantic Lottery Corporation was incorporated in 1976 under the Canada Business Corporation's Act. The Corporation is jointly owned by the four Atlantic Provinces. Each Province has lottery and gaming legislation in place, with supporting regulations, which must be complied with by the Atlantic Lottery Corporation in its operation of lottery games in each province.

VIDEO LOTTERY PROGRAM

As outlined in last year's Annual Report, all video lottery terminals were closed down and subsequently removed from non-licensed sites in Prince Edward Island effective April 1, 1998. The implementation of this very substantial change to the Video Lottery Program was carried out without any problems and with the full cooperation of the machine owners and non-licensed siteholders.

The removal of video lottery terminals from non-licensed sites involved 238 or 38% of the 633 machines then active in the Province. It also resulted in a 62% decrease in locations with machines from 239 sites to 92 sites. The P.E.I. Lotteries Commission believes the overall net affect of these changes has been positive as the video lottery terminals are now restricted to fully aged controlled locations.

HARNESS RACING

As reported in last year's Annual Report, the Atlantic Lottery Corporation has through a subsidiary company, ALC Harness Racing Corporation (ALCHR), became actively involved in the harness racing industry in New Brunswick, Nova Scotia and Prince Edward Island. This involvement started with the commencement of the harness racing season in May, 1998. ALCHR's mandate is to revitalize the harness racing industry by providing grants to the seven Maritime tracks to be used to operate, market and promote harness racing.

The provision of financial support, as well as marketing and promotional expertise and coordination by ALCHR, significantly boosted the region's harness racing industry over the past year. This success was very apparent at both the Summerside and Charlottetown tracks as attendance and wagering showed significant growth. The importance of this success in the case of these two Island tracks goes beyond the actual harness racing industry, to the history and culture of the Province and to the Province's tourism industry.

With the support of the Prince Edward Island Lotteries Commission and the related organizations in New Brunswick, and Nova Scotia, ALCHR will, based on an aggressive business plan, again play a major role in the region's harness racing industry over the next year.

WITHDRAWAL OF NOVA SCOTIA FROM THE ATLANTIC LOTTERY CORPORATION

The Nova Scotia Gaming Corporation formally announced on March 29, 1999, its intention to withdraw Nova Scotia from the Atlantic Lottery Corporation. The identified time frame will see its video lottery program removed from the Atlantic Lottery Corporation on November 30, 1999 and its ticket lottery business removed on March 31, 2000.

The Nova Scotia announcement in March, 1999, followed extensive negotiations within the Board of the Atlantic Lottery Corporation and among the Governments of the four Atlantic Provinces on possible changes to the profit sharing formula used by the Corporation. Nova Scotia had expressed concern that they were not receiving a fair share of the profits generated through Atlantic Lottery Corporation's Lottery operations.

The Prince Edward Island Lotteries Commission strongly believes that the move by Nova Scotia to leave the Atlantic Lottery Corporation and establish its own lottery operation will result in decreased revenues and higher total operating costs for all four provinces as economies of scale and market size are lost. The Commission is, however, pleased to confirm that Prince Edward Island, New Brunswick and Newfoundland and Labrador have committed to continue to work together within the Atlantic Lottery Corporation. Nova Scotia has also confirmed that it will continue to work with New Brunswick and Prince Edward Island in the harness racing industry.

FINANCIAL PERFORMANCE

The profits earned for distribution to Prince Edward Island from Atlantic Lottery Corporation operated lottery games during fiscal year 1998-99 totalled $11,142,529. This is down $3,408,459 or 23.5% from the fiscal 1997-98 figure of $14,550,988.

The main reasons for this substantial decrease in profits for distribution to the Province were a nearly 30% drop in revenues and a resulting 22.7% decrease in profits from video lottery terminals as a result of the removal of terminals from non-licensed sites, and the additional costs associated with the support of the harness racing industry.

The profit situation for the other Provinces ranged from an increase of more than 2% for New Brunswick to an increase of nearly 14% for Newfoundland and Labrador for fiscal year 1998-99 over fiscal year 1997-98. Much of the growth in profits in the other three Provinces was in their video lottery programs.

The profits received by Prince Edward Island from lottery games are placed in the Province's general revenues. As a result, they are used to help fund all the Provincial services which are important to and expected by all Islanders.

Table 1 on the following page provides comparative information for Prince Edward Island on gross profit by program type for fiscal years 1997-98 and 1998-99.

TABLE 1

ALLOCATION OF GROSS PROFIT BY

GAME TYPE - PRINCE EDWARD ISLAND

(MILLIONS)

	1999			1998		
	Video Lottery $	Ticket Games $	Total $	Video Lottery $	Ticket Games $	Total $
Gross ticket sales	-	27.5	27.5	-	24.1	24.1
Net video lottery receipts	11.4	-	11.4	16.2	-	16.2
	11.4	27.5	38.9	16.2	24.1	40.3
Direct Expenses:						
Prizes on ticket sales	-	15.2	15.2	-	12.9	12.9
Commissions	4.3	1.9	6.2	6.9	1.8	8.7
Ticket printing	-	0.7	0.7	-	0.6	0.6
	4.3	17.8	22.1	6.9	15.3	22.2
Gross Profit	7.1	9.7	16.8	9.3	8.7	18.0

* Numbers may not total exactly due to rounding.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

1. COMMISSION ESTABLISHED

The Lotteries Act (L.P.E.I. 1976, Cap. 20), enacted by the Legislative Assembly at its 1976 Session and given Royal Assent on 22 April 1976, provided for the establishment of a P.E.I. Lotteries Commission. The Act was proclaimed via Order-in-Council No. EC673/76 for effect on 24 July 1976.

2. OFFICERS AND MEMBERS

As of March 31, 1999, the members and officers of the P.E.I. Lotteries Commission were: Honourable Patricia J. Mella, Chair, Michael L. O'Brien, Vice-Chair, and Ginger Breedon, Secretary-Treasurer.

Mr. O'Brien and Mr. Breedon were also Prince Edward Island's representatives as Directors on the Atlantic Lottery Corporations's Board of Directors.

3. BYLAWS OF THE COMMISSION

In addition to the requirements of the Lotteries Act, the Commission is governed by its Bylaws which were approved by the Lieutenant Governor in Council on 26 August 1976 via EC794/76.

4. AGREEMENTS

As provided in Section 7 of the Act, subsections (b) and (c), the Commission recommended two agreements for the consideration of the Lieutenant Governor in Council, both of which were approved and subsequently entered into by the Commission.

1. EC796/76 of 26 August 1976, an agreement with the Provinces of Nova Scotia, New Brunswick and Newfoundland to establish and operate a regional lottery.

2. EC797/76 of 26 August 1976, an agreement for the establishment of the Atlantic Lottery Corporation.

5. LOTTERIES OPERATED OR SANCTIONED

The P.E.I. Lotteries Commission did not, itself, operate any lotteries during the fiscal year 1998-99. However, a number of lottery games sanctioned by the Commission and developed and managed by the Atlantic Lottery Corporation were in operation during the fiscal year. These included Loto 6/49, Super 7, TAG, Pik 4, Atlantic Choice, Sports Select and various instant pick/breakopen games.

On-line video lotteries are also available.

6. FINANCIAL REPORT

The Financial Statements of the Prince Edward Island Lotteries Commission, as prepared by the Auditor General's Office, follow as part of this report.

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 1999

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

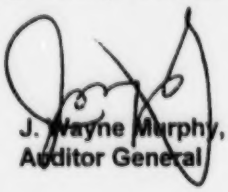
AUDITOR'S REPORT

To the Members of the
Prince Edward Island Lotteries Commission

I have examined the balance sheet of the Prince Edward Island Lotteries Commission as at March 31, 1999 and the statement of financial activities for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 1999 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.



J. Wayne Murphy, FCA
Auditor General

Charlottetown, Prince Edward Island
June 29, 1999

STATEMENT 1

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

BALANCE SHEET

MARCH 31, 1999

	1999	1998
ASSETS		
Account Receivable - Atlantic Lottery Corporation Inc.	$959,027	$1,272,122
Share in Atlantic Lottery Corporation Inc. - at cost	100	100
Share in Interprovincial Lottery Corporation - at cost	1	1
	$959,128	$1,272,223
LIABILITIES		
Due to Province of Prince Edward Island	$959,128	$1,272,223

(The accompanying notes are an integral part of these financial statements.)

SIGNED ON BEHALF OF THE COMMISSION:

Patricia J. Mella

Ingrid Sheldon

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

STATEMENT OF FINANCIAL ACTIVITIES

YEAR ENDED MARCH 31, 1999

	1999	1998
INCOME		
Distribution of Atlantic Lottery Corporation Inc. net profit - Note 1	$11,142,529	$14,550,998
EXPENSE		
Remittance to Province of Prince Edward Island	11,142,529	14,550,998
NET RESULT AFTER REMITTANCE TO PROVINCE OF PRINCE EDWARD ISLAND	$ -	$ -

(The accompanying notes are an integral part of these financial statements.)

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1999

1. **Description of Business**

The Government of Prince Edward Island operates no lotteries but the Province, through its ownership of the Prince Edward Island Lotteries Commission, is a shareholder in the Atlantic Lottery Corporation Inc. (ALC) and in the Interprovincial Lottery Corporation (ILC). The ALC is jointly owned by the four Atlantic provinces and is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. The ALC also markets and handles regionally the products of the ILC, which is jointly owned by the ten Canadian provinces. Investments in the ALC and in the ILC are carried at cost.

Net profits of the ALC, including the ILC operating results, are distributed monthly to the shareholders. Operational costs attributable to all provinces are subtracted from total revenues. The remaining profits are allocated to the individual provinces on the basis of each province's portion of net sales. Expenses separable and specific to each individual province are then subtracted and each province's balance is paid out.

Profits received by the Commission from the ALC are remitted to the Province of Prince Edward Island.

2. **Subsequent Event**

The Nova Scotia Gaming Corporation has served notice of its intention to withdraw from the Atlantic Lottery Corporation Inc. (ALC). The three remaining shareholders have agreed to continue the ALC and operations will continue in the provinces of Prince Edward Island, New Brunswick and Newfoundland. The terms of the withdrawal have not been finalized. As a result, the effect, if any, on the future carrying value of the ALC's assets and liabilities is not determinable at this time.